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Message Text

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22
ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

EUR-12 /107 W
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R 181606Z MAY 76
FM AMEMBASSY QUITO
TO SECSTATE WASHDC 181
INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 3593

E.O. 11652: GDS
TAGS: ENRG PFOR EC
SUBJ: MINISTER OF NATURAL RESOURCES VARGES DEFENDS GOE PETROLEUM POLICY

REF: QUITO 3556

1. SUMMARY: MINISTER OF NATURAL RESOURCES RENE VARGAS APPEARED ON NATIONAL TELEVISION MAY 14 TO DEFEND HIS PETROLEUM POLICY. SPEECH WAS PRECIPITATED BY RASH OF PRESS CRITICISM OF CEPE-ROMPETROL CONTRACT (REF). END SUMMARY.

2. MINISTER OF NATURAL RESOURCES RENE VARGAS SPOKE ON ALL (NATIONWIDE) TELEVISION STATIONS EVENING OF MAY 14 TO DEFEND HIS PETROLUEM POLICIES. SPEECH WAS MODERATE IN TONE AND NOTABLY LACKING IN HIS OFT-VOICED ATTACKS ON "PETROLEUM MONOPOLIES" OR APPEALS TO "DEFENDING NATIONAL INTERESTS." VARGAS EMPHASIZED THAT ALTHOUGH PETROLEUM SHOULD IDEALLY BE DEVELOPED WITH ECUADOR'S OWN RESOURCES, THE COUNTRY AT THIS STAGE CONTINUES TO NEED FOREIGN FINANCIAL AND TECHNICAL ASSISTANCE. THE MINISTER SAID THAT A REASONABLE PETROLEUM
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POLICE DEMANDS "A JUST AND NECESSARY EQUILIBRIUM BETWEEN WHAT WE SHOULD DO DIRECTLY AND WHAT WE SHOULD DO WITH FOREIGN

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ASSISTANCE," AND CAUTIONED AGAINST DEPENDENCE ON A SINGLE TECHNOLOGY AND SOURCE OF FINANCING.

3. THE MINISTER DESCRIBED IN POSITIVE TERMS THE STATUS OF ORIENTE EXPLORATION (SUPPORTED BY MAPS AND GRAPHS) AND THE INTEREST OF FOREIGN FIRMS IN BOTH EXPLORATION AND INDUSTRIAL-IZATION OF ECUADOR'S PETROLEUM RESOURCES. CLEARLY IN RESPONSE TO RECENT PRESS COMMENT CRITICAL OF THE DECLINE IN EXPLORATION, VARGAS SAID THE MINISTRY WAS NOW PREPARING THE BASES FOR SERVICE CONTRACTS TO ENCOURAGE EXPLORATION IN THE ORIENTE. (EMBASSY COMMENT: CARGAS HAS LONG BEEN CONSIDERED AN APPONENT OF THE CONCEPT OF SERVICE CONTRACTS, AND HIS STATEMENT MAY SIMPLY HAVE BEEN LIP SERVICE TO HIS CRITICS WHO FAVOR THIS FORM OF GOE RELATIONSHIP WITH OIL COMPANIES. END COMMENT.)

4 VARGAS ALSO TOUCHED ON THE PROGRESS OF THE STATE REFINERY AT ESMERALDAS, THE IMMINENT CONSTRUCTION OF THE SHUSHFUINDI GAS PLANT TO SUPPLY THE LOCAL GAS MARKET, AND CEPE'S AMBITIOUS PROGRAMS FOR DRILLING, TRANSPORTATION AND STORAGE. HE ALSO REFERRED TO A RECENT CRITICISM OF THE PURCHASE OF A 25 PERCENT SHARE OF TEXACO-GULF; VARGAS DISPOSED OF THIS PARTICULAR ISSUE BY PUTTING FORTH SOME FIGURES ON THE RESULTANT REVENUES FOR CEPE.

5. REFERRING TO THE CEPE-ROMPETROL CONTRACT, VARGAS POINTED OUT THAT ALL THE CONCESSIONAIRES HAVE EMPLOYED DRILLING CONTRACTORS, AND ASSERTED THAT CEPE HAD FORMED THE MIXED COMPANY WITH ROMPETROL SOLELY TO DO THE SAME FOR CEPE'S OWN CONCESSIONAL AREAS. VARGAS CONTINUED THAT ESEPAS (THE MEXED COMPANY TO BE FORMED BY CEPE AND ROMPETROL) WOULD OFFER ITS SERVICES AT SUBSTANTIALLY BETTER PRICES THAN THOSE OFFERED BY THE OTHER CONTRACTORS. VARGAS ADDED WRYLY THAT A CONTRACT FOR ONE DRILLING RIG HARDLY CONSTITUTED A SELL-OUT TO FOREIGN INTERESTS, AS SOME OF THIS CRITICS HAVE BEEN CHARGING.

6. VARGAS WENT ON TO ASSERT THAT CEPE'S GROWING ROLE IN ECUADOR'S HYDROCARBON ACTIVITIES STILL LEAVES ADEQUATE AND FAIR SCOPE FOR PRIVATE ENTERPRISE IN THIS FIELD. TOUCHING ON RECENT STRONG CRITICISMS OF CEE'S CONTROL OF THE SUPPLY
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OF VALVES FOR LPG CYLINDERS, HE DEPICTED THIS AS A LEGITIMATE AND RATIONAL FUNCTION FOR CEPE TO HANDLE, AND REFUTED VARIOUS CRITICISMS OF THE QUALITY OF THE VALVES BEING SUPPLIED BY CEPE.

7. VARGAS' SPEECH RECEIVED FRONT-PAGE COVERAGE IN ALL NEWSPAPERS. CONSERVATIVE DAILY "EL TIEMPO" ALSO CARRIED ON ITS FORNT PAGE (RIGHT BELOW ITS NEWS-REPORT OF VARGAS' SPEECH) QUESTIONS DIRECTED AT THE MINISTER, HIGHLIGHTING AMBIBUITIES AND CONTRADICTIONS IN THE MINISTER'S SPEECH. "EL TIEMPO" POINTED OUT THAT THE ROMPETROL CONTRACT PROVIDED

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FOR ASSISTANCE IN ALL PHASES OF PETROLEUM DEVELOPMENT; THAT THE DRILLING RIG TO BE SUPPLIED BY THE ROMANIANS WAS TOO HEAVY FOR USE IN THE ORIENTE; THAT PETROLEUM RESERVES WERE INADEQUATE TO SUSTAIN THE PLANNED PETROCHEMICAL INDUSTRY; AND THAT PRIVATE INDUSTRY COULD IMPORT VALVES (FOR LPG CYLINDERS) MORE CHEAPLY THAN CEPE.

8. EMBASSY COMMENT: ALTHOUGH VARGAS' SPEECH LEFT THESE QUESTIONS (AND OTHERS, MORE IMPORTANT) UNANSWERED, "EL TIEMPO'S" HAS BEEN THE ONLY PRESS COMMENT AS OF MAY 17 ON VARGAS' SPEECH. VARGAS LAUNCHED NO ATTACK AGAINST TEXACO-GULF, NOR MADE ANY HYSTRICAL STATEMENTS (OR OUTRIGHT LIES) AS HE HAS IN PAST PUBLIC PRONOUNCEMENTS. HE APPEARANCE ON TELEVISION PROJECTED ARGAS' CHARISMATIC PERSONALITY AT ITS BEST.
WE HAVE THE IMPRESSION THAT HE SUCCEEDED, IN HIS TV PRESENTATION, IN IMPROVING SOMEWHAT HIS OWN IMAGE AND THE ACCEPTABILITY OF HIS POLICIES: AND THAT THIS ACCOMPLISHMENT WAS ACTUALLY MADE ALL THE EASIER FOR HIM BECAUSE HIS CRITICS HAVVE UNWISELY BEEN CLUBBING HIM WITH SOME VARY WEAK REEDS. UNDER PRESENT CIRCUMSTANCES, HOWEVER, THEY ARE UNABLE TO CHARGE HIM WITH WHAT WE BELIEVE IS ACTUALLY HIS BASIC ERROR--THE FACT THAT HE IS TRYING TO KILL THE GOOSE THAT IS LAYING THE GOLDEN EGGS--BECAUSE ANYONE WHO ACCUSES HIM OF BEING OVERLY HARSH AGAINST TEXACO-GULF CAN SO EASILY BE MADE TO LOOK LIKE A STOOGE FOR THE COMPANIES.
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